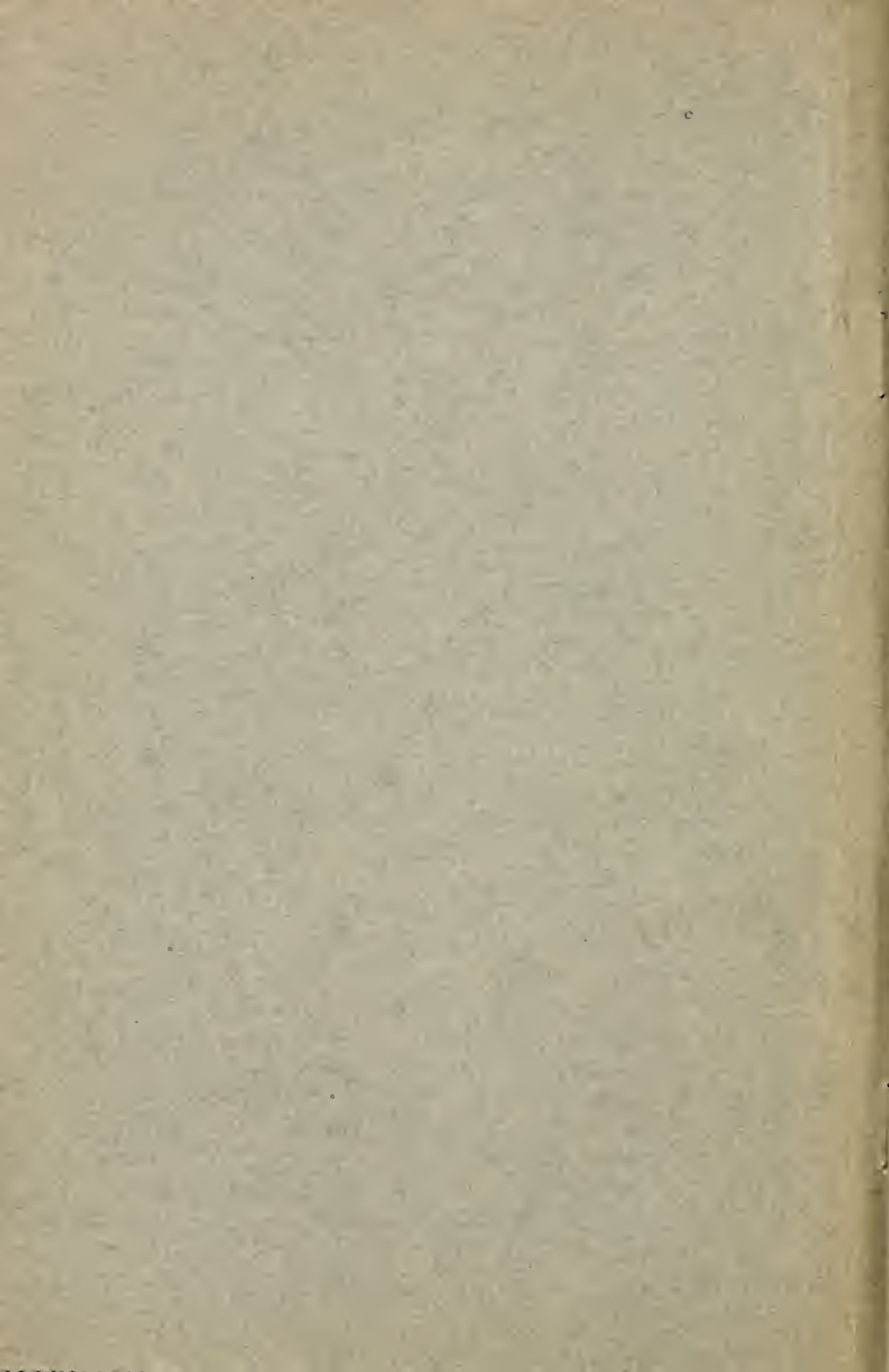


SHOULD
RAILROAD RATES
BE RAISED?

AN
AFFIRMATIVE
ANSWER



ADDRESS OF
WILLIAM A. HAYES
AT
ANNUAL BANQUET OF MILWAUKEE TRAFFIC CLUB
JANUARY 20, 1914



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Extract From

Address at Annual Banquet of Milwaukee Traffic Club

Milwaukee, January 20, 1914.

Considering American railroads as a system, traffic rates are too low, and ought to be substantially increased. Such an increase would prove advantageous to the general public as well as to the companies. (I am not here to ask you to accept my conclusion, but to point out certain facts for the consideration of intelligent men, and to suggest inquiry as to further facts, which, taken in connection with those to be mentioned, compel the conclusion indicated.

To come to any sound conclusion in respect of the sufficiency or the insufficiency of existing rates, we must take into account the larger facts touching American railroads as a whole. Governors, senators, legislatures, courts, judges and commissions have each and all failed to deal effectively and justly with railway problems because a consideration of the subject in hand was limited either to a particular railroad or to a group of railroads without reference to its or to their relation to the other railroads of the country. There can be no fair solution of the railway problems unless we become familiar with these larger facts and comprehend the railroads of the country in their entirety.

(Therefore, as preliminary to more specific re-

marks upon the subject of rates, I invite you briefly to consider a few facts which show that the railroads of the country constitute the greatest system of transportation on the face of the earth, and the greatest piece of constructive work for the serving of the people, accomplished by man since the beginning of recorded history.

There are in the country, at this time, two hundred fifty thousand miles of line and three hundred eighty thousand miles of track. There is enough line to go around the earth ten times at the equator and more than fifteen times in the latitude of Milwaukee. There is enough track to go around the earth nearly twenty-five times in the latitude of Milwaukee; enough to lay nearly one hundred twenty parallel tracks from New York to San Francisco, and all of this has been constructed within the life time of men still living. All of this trackage is of standard gauge, and every mile is a connected part of the whole; it penetrates every part of the three million square miles of our public domain, and over it the products of the farm, the forest and the mine may be, and daily are shipped to the cities and the seaports of the land, and over it in turn are daily shipped, for distribution, the finished products of every foreign country and of every section of our own.

This great system is equipped with nearly sixty-five thousand locomotives, more than fifty thousand passenger cars and more than two million three hundred thousand freight cars. The locomotives, if placed in a continuous line, would extend almost from Chicago to New York. The passenger cars, if placed in a continuous line, would extend nearly

from Chicago to Washington, and their capacity is sufficient to house at one time all the people of the state of Wisconsin, and still leave enough room to shelter from the chilling winds of winter all of the people of Montana and Nevada. There are enough freight cars to make a continuous line around the earth in the latitude of Milwaukee; to fill nearly five parallel tracks from New York to San Francisco, and their carrying capacity is sufficient to hold nearly three thousand pounds of freight for every man, woman and child in the United States.

This great plant is manned by about fifty thousand conductors; nearly sixty-five thousand engineers; a like number of firemen, and in all by nearly one million seven hundred thousand men. Its activities never cease. Every month, every day, every hour, every second, in darkness and in daylight, in the face of fire and flood and storm and tornado; in the extreme cold of winter and the extreme heat of summer it is operated for the convenience and the comfort of the people. The products of the farm, the forest, the factory and the mine; the wheat of the Dakotas; the corn of Iowa and Kansas; the fruits of California and Florida; the cotton of Mississippi and Texas, and the coal of Pennsylvania and West Virginia derive their value very largely from its existence and its operation. The freight carried annually, at the lowest rates in the world, is equivalent to more than twenty-five tons conveyed one hundred miles for every man, woman and child in the nation, and the yearly passenger traffic is equivalent to the taking of the entire population of Wisconsin around the earth in this latitude, or to the travel of a party of more than thirty persons,

going at the rate of a mile a minute, night and day, every second of the time since Christ was born.

Owned and operated by many companies, the various lines have, by reason of matters which time will not permit me to discuss, come to constitute one great system, and the process of nationalization, as it may be called, is now going on more rapidly than at any previous time. It may be said that the railroads constitute one great system of commercial highways, the activities of which are in an intricate and delicate way most vitally connected with the economic, the industrial and the social life of the nation. Like the arteries and nerves of the human body they penetrate and vitalize every part, and the agricultural, the manufacturing, the mining, the commercial, the financial and the social activities of the people, as they exist today, would be inconceivable without them. Considered in their entirety, our railroads are the most wholesome economic force in existence. They are the balance wheel, as it were, of production, distribution and consumption, and next to agriculture contribute most to the prosperity and the comforts of the people. Whatever, therefore, affects their management and their finances, affects their service, and through their finances and their service affect every other industry and all persons throughout the country.

The Interstate Commerce Commission and commissions in the several states have for some years past exercised large authority in the matter of rates, while at the same time determining to a considerable degree both the character and the extent of the service, thus reducing income and increasing expense.

Wages and the cost of materials, supplies and taxes have been largely increased, but net earnings have not been increased accordingly, and as a result the financial condition of the railroads has been most seriously affected. There are, therefore, many good reasons why a substantial increase in traffic rates would prove beneficial generally, but I shall limit myself to a very brief discussion of three.

FIRST. The laborer is worthy of his hire. So is the man possessed of capital, or, as it may be termed, crystallized labor entitled to a fair return for its use, and the return upon capital now invested in the railroads of the country is too low. It is lower than the return received by many of the large life insurance companies, whose securities are of the strictly investment class, and very much lower than the return on capital invested in banking, manufacturing and other industries generally. I am well aware that some will question the accuracy of this statement, and reply by saying that, while the interest and the dividend rates upon the bonds and the stocks of the railroads may be low, the capital as shown by the bonds and stocks is excessive, and that the rate upon the actual investment is higher than it ought to be. Indeed, it is generally assumed that the railroads of the country are grossly over-capitalized, and it is widely charged that the people are paying vast sums in the form of interest and dividends upon such over-capitalization. It is not so. The charge is contrary to the facts in so far as the facts have been ascertained. It has been made again and again by certain magazine writers and by some public men, but I care not by whom made, it can be substantiated by no one.

Whenever, wherever and by whomsoever made, it is made either in ignorance of the fact, or in disregard of the fact.

The best available information at present obtainable is to the effect that the American railroads as a whole are not over-capitalized. It is not unlikely that an impartial valuation of their properties, as they exist today, by competent and impartial men would find such values to exceed by from ten to twenty per cent the net face value of all of their bonds and stocks. Let us examine a few facts. A physical valuation of railway property has been made by public commissions in five states, namely: Michigan, Wisconsin, Minnesota, South Dakota and Washington. The value of the railway property in these states, as shown at the time by their stocks and bonds, was approximately \$1,210,000,000; yet the Commissions found the value to aggregate a little more than \$1,211,000,000, and the actual value was fixed by other competent and disinterested authorities at considerably more than the values found by the Commissions.

Again, we have in the country about one-sixteenth of the world's land area, and one-sixteenth of the world's population, but we have forty per cent of the world's railway mileage, nearly all built without any guarantee of profits upon the investment, other than faith in the future of the country. Yet the average capitalization per mile of railway in this country is considerably less than the average capitalization per mile of the railways of the world. It is probable that rights of way here have cost less per mile than in many of the other countries, but nowhere else in all the world has the cost of labor,

the chief item in the cost of railway construction, been so high as in our own country. Another consideration is this: The average capitalization per mile is less than the average capitalization per mile of railroads now being constructed in Japan, India and elsewhere; yet we are informed that labor in India is cheaper than in any other country of the world.

If we turn to the matter of taxation, we arrive at the same conclusion. The taxes of the railroads have been increased more than \$50,000,000 a year within the last seven years, and they are now paying a tax of about \$130,000,000 annually. If the value is in the railroads, why not the rate to pay a fair return thereon? If the value is not there, and the tax is, then it would seem that we have at least a few public officials who are violating their oaths of office and committing grand larceny in the name of the state. *Is it fair treatment that one set of public officials should increase the taxes upon the theory that the capital indicated is actually invested, and that another set of public officials should refuse to permit the railroads to charge an adequate rate upon the theory that the capital is largely water?* For my own part, I am satisfied that the capital is invested and that the rates ought to be raised. I hope that the physical valuation to be undertaken by the Government will be promptly carried out, for, if the work should be thoroughly and fairly done, the result will remove a very erroneous idea from the public mind.

Let us approach the question of investment from another point. Let us consider for a moment the cost of what may be termed a table of accessories.

There are along the railroads of the country about 325,000,000 fence posts and 2,500,000 miles of wire, and the fences have cost approximately \$125,000,000. There are cattle guards, plankings, wing fences and warning signs from 400,000 to 500,000 in number, and these have cost almost \$50,000,000. There are upon the ground about 1,140,000,000 ties, which have cost from \$600,000,000 to \$700,000,000. There are more than 5,000,000,000 spikes and fastenings; there are enough of these to put at least three into the hands of every human being on the face of the earth; enough to give an armful of fifty to every man, woman and child of all the 100,000,000 people in the United States, and these little things have cost nearly \$60,000,000. There are more than 55,000,000 tons of rail, which have cost approximately \$1,600,000,000. There are water tanks and watering plants costing nearly \$100,000,000. There are roundhouses, small repair shops and the like, costing upward of \$500,000,000. There are 80,000 passenger depots and more than 100,000 depots in all, which, according to the best information at hand, have cost approximately \$1,750,000,000. There are about 65,000 locomotives varying in cost from \$10,000 to \$50,000 apiece, and having an aggregate value of nearly \$1,200,000,000. There are 50,000 passenger cars that have cost upward of \$600,000,000, and there are more than 2,300,000 freight cars, which have cost approximately \$2,000,000,000. We have in these accessories an investment of from \$8,000,000,000 to \$9,000,000,000, and at a most conservative estimate such investment amounts to more than forty per cent of the net capitalization of all of the railroads of the country.

But we have not yet a railroad. We have not an acre of right of way, nor have we a shovelful of earth turned, nor a rock blasted, nor a river spanned, or a tunnel bored.

So I repeat that, as the laborer is worthy of his hire, the men and the women of the land who have both directly and indirectly invested their savings in the railroads of the country are entitled not only to a reasonable security for such savings, but also to a fair return thereon, and in the present state of things they are not getting it. It is unjust and it is unwise from an economic view-point to seek to compel those who have invested their means in these great public service undertakings to go without an adequate return. In the long run and in a large way such a policy is certain to re-act upon other lines and ultimately to have an adverse effect upon all of the country's industries and upon every individual.

Last year the people of this country paid only about \$700,000,000 as a return upon the tremendous investment in their railroads; that is all that was paid for the use of all the vast machinery of transportation which stretches from ocean to ocean and from the lakes to the gulf, and upon which the prosperity and the comfort of the nation depend. Mark it: For these purposes, they paid only about \$7 per capita, yet they paid almost \$11 per capita to run the federal government alone. Senator Burton of Ohio, writing two weeks ago in the "Saturday Evening Post," said that two-thirds of all of the appropriations made by Congress last year were on account of wars that have been or wars that may be. If this statement be true, then the people of this

country paid last year less for the use of the capital invested in their splendid transportation system covering the whole country than they paid on account of war.

SECOND. Another reason why rates should be advanced is this: *The return on existing capital is so low as to discourage further investment in railway securities, and, if this situation continues the development of the country's transportation facilities is likely to be arrested to an extent certain to hinder the development of other industries.* Adequate transportation facilities are indispensable to the prosperity of agriculture, manufacturing, mining, jobbing and other industries generally. Such facilities can be secured only by improving and extending existing lines; building new lines; providing larger and more conveniently arranged terminals, warehouses, depots and additional locomotives and cars. These require vast sums of money, and to provide them there should be a further investment within the next few years of from five to seven billions of dollars. If the railroads are to keep up with the growth of the country in other respects, and if they are to afford the farmer, the manufacturer, the jobber and the shippers generally the facilities which these industries are demanding, and which all well-informed railroad men concede should be afforded, then the investment of additional capital must be encouraged. It is probable that there is not at present a large city in the country where the railroad facilities are sufficient to accommodate the handling of traffic as promptly and as cheaply as it ought to be handled, and this is equally harmful to the shippers and to the railroads. It

means expense to the former without benefit to the latter.

Transportation facilities which keep pace with, and contribute to the growth of other industries can be secured only by that fair treatment which gives confidence to those who are charged with investing the means necessary to develop such facilities. It is idle to talk of compelling. There is nothing either in law or in morals by which one man can compel another to put his means into a given enterprise for the benefit of the first without a reasonable return to the second. We must not forget that, by reason of the events of the past few years, the custodians of capital have justly become cautious; that the reservoirs of capital, from which the vast amount needed to make improvements must be drawn, are the banks, the trust companies and the insurance companies of the country; that these institutions are merely the custodians of trust funds belonging to the millions of individuals throughout the land, and that the law as well as sound business judgment forbid their putting these funds into railroad enterprises, no matter what the need for additional facilities may be so long as existing capital is insecure, and the return thereon inadequate.

A further investment of from three to five billion dollars is required to satisfy the public demands for improvements, which, if made, would not appreciably, if at all, increase the earnings of the railroads. These demands cover the elimination of grade crossings; more commodious and more conveniently arranged passenger depots; the substitution of steel passenger cars in place of present equipment; more and better train service generally, and

many other minor improvements. It may be conceded that all of these changes are desirable, but they would not materially increase the earnings. Then, whence the money? Railroad managers are not magicians. Like the great mass of men in other pursuits they can but work in "common ways with common men." If such improvements are to be made, and railroad men generally, as well as the public, would be glad to see them made, the expense must be met either by another large addition to capital or they must be paid for out of net earnings. If the expense is to be met by the first method, the net earnings must be increased sufficiently to provide the sums adequate to pay not only a reasonable return upon existing capital, but a reasonable return upon the additional capital required. If such expense is to be met by the second method, the net earnings must be correspondingly increased in order that there may be a sufficient surplus out of which the improvements may be gradually made.

There appears to be little appreciation of the extent of the demands made upon railroad companies in recent years. For instance, men talk freely about the substitution of steel cars in place of present passenger equipment, as if the matter were of no great consequence from a financial standpoint, and members of congress and senators make speeches and introduce bills to compel an immediate change. They appear to think that steel equipment could be quickly provided and that it would result in a great saving in operating expense, whereas the fact is, that it would require nearly ten years for the car builders of the country to turn out sufficient cars to make the change; the expense of operating

would be considerably greater than the present cost of operation, and the initial cost would be approximately six hundred million dollars. As a further illustration, it may be said, that there are upon the railroads of the country more than 350,000 highway crossings, and that the elimination of the entire number would probably cost more than \$5,000,000,000. It may truthfully be said that railroad men generally are more keenly appreciative of the importance of making the improvements about which so much is said, but they have not yet found a way to pay out two dollars where they receive but one.

THIRD. Another reason why the rates should be increased is this: *A substantial increase is necessary to preserve the economic balance in the country generally.* While the rates are insufficient to pay a reasonable return upon the present investments, not only are further investments discouraged, but the development of transportation facilities is arrested with a consequent disastrous effect upon all other industries. There is also a serious disturbance of the finances of the country at large, for the finances of the railroads are quite as extensively interwoven with the finances of the country generally as is the physical system of tracks and terminals and cars with the several parts of the land. I know of no other single agency in all the land which so widely and so promptly returns to the pockets of the people so large a proportion of the moneys received as do the railroads.

The gross earnings at present are about \$3,000,000,000 a year, and of this about \$1,500,000,000 is immediately disbursed in the form of wages; \$600,-

000,000 to \$700,000,000 are paid out for materials and supplies, and about \$130,000,000 is paid in taxes. For example, during the fiscal year ending June 30, 1913, the three large systems operating in Wisconsin, namely: The Chicago and Northwestern, the Chicago, Milwaukee & St. Paul, and the Minneapolis, St. Paul & Sault Ste. Marie had gross earnings in the state of a little more than \$57,000,000, and of this sum, these three companies paid out to the people of the state, during the same fiscal year, the sum of \$45,000,000 in three items, namely: for wages, materials and supplies, and taxes. It is not likely that such a showing could be made by any other industry.

What is true of the vast sums paid out for wages, materials and taxes is almost equally true of the remaining \$700,000,000 paid as interest and dividends. Only in a very limited sense are the stocks and the bonds the property of the few and the rich. There are from eight to nine millions of people who draw their daily sustenance from the railroads, but there are in addition to these more than a million stockholders, thus adding approximately three millions more who have a direct interest in the properties of the various companies.

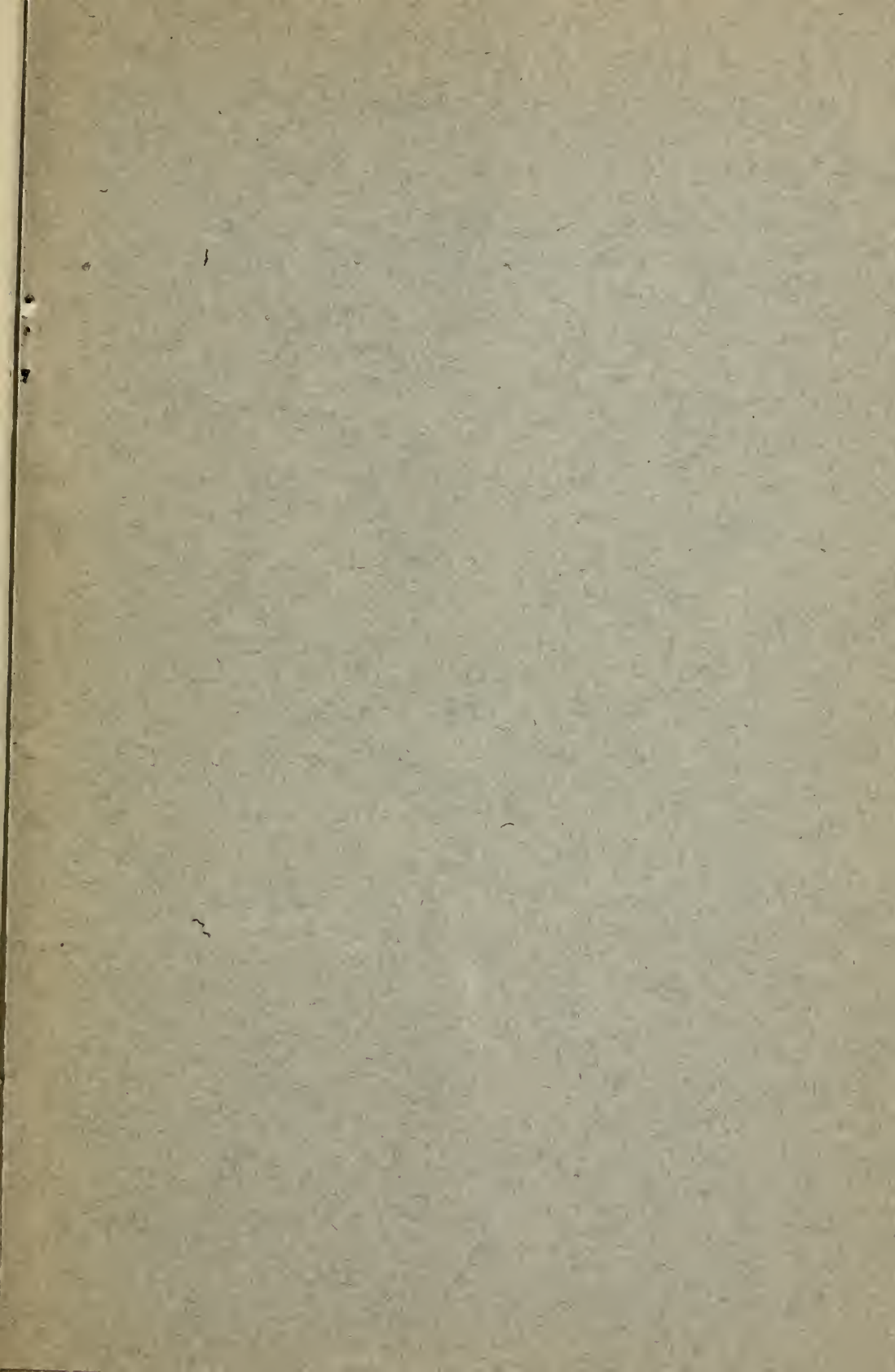
But the number who have a financial interest, only slightly less direct, exceeds in number both of the classes mentioned. To illustrate: A few days ago the New York Life Insurance Company published a statement showing more than one million policy holders and more than three hundred millions of the Company's assets invested in railroad bonds and stocks. It follows, therefore, that from twelve million to fifteen million dollars of the

moneys disbursed last year in the form of interest and dividends upon the bonds and stocks of the railroads, a fairly substantial part of the seven hundred millions mentioned went into the treasury of a single life insurance company for distribution among more than a million policy holders, including farmers, mechanics and other laborers, as well as the merchants, manufacturers, bankers and the like. Were we to trace the moneys paid as interest and dividends we would find a very large proportion of it returning to the pockets of the thrifty men and women residing throughout the country.

This invisible connection of vast numbers of the people with the very financial resources and accumulations of capital which they are wont to attack as antagonistic to their own interests is the most strange phenomena of the age. It suggests the question, whether as a people we are not somewhat wanting in the power of analysis and in the habit of calm reflection. There are within five minutes' walk of where we now sit, in the bank vaults of the city, more than a hundred millions of assets. Next to the labor of her people, this is the most potent force in the industrial and commercial life of the city. Each little sum is without productive capacity while it remains hoarded in individual hands. On the other hand, even the single dollar to the credit of the baby in the cradle when deposited in bank and rendered active in the productive enterprises of the community becomes a contributing factor in moving and expanding the mighty manufactories which are the support and the pride of the city. | So it is with the capital of the railroads. It belongs to the many. It is the

capital of the people generally, and when the situation is rightly understood the people will see that in attacking the railroads they are attacking their own interests.

It is well to take account of these things, for they help us to think straight, and to comprehend the great principles of finance which lie at the foundation of prosperity in every well-ordered state; principles which have endured and will endure, for "On the rocks primeval, hidden in the past their bases be, block by block the endeavoring ages build them up to what we see." It must be clear that any policy which affects the value of railroad securities by reducing the return thereon, below what is reasonably adequate, tends to disturb all of the country's industries and its entire financial system to the detriment of all of the people.





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